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RUEHBJ/AMEMBASSY BEIJING 4220
RUEHKO/AMEMBASSY TOKYO 9262
RUEHUL/AMEMBASSY SEOUL 3105
RUEHCHI/AMCONSUL CHIANG MAI 3557
RHEFDIA/DIA WASHDC
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UNCLAS SECTION 01 OF 04 BANGKOK 002749

SIPDIS

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SENSITIVE

FROM THE AMBASSADOR FOR EAP A/S HILL

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [PHUM](#) [ECON](#) [EINV](#) [KDEM](#) [MOPS](#) [ASEC](#) [TH](#)

SUBJECT: SCENESETTER FOR EAP A/S HILL'S VISIT TO THAILAND

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SUMMARY

1. (SBU) Chris, your visit will help us to reinforce with top-level RTG officials the need to return to democratic governance through elections by the year's end. Political parties, NGOs, and others in the political class are currently debating an initial draft of the constitution, to be finalized by July and then put to voters in a September referendum. An upcoming Tribunal ruling may dissolve Thailand's two largest political parties, and leading figures in those parties could be banned from holding political office for five years. Applying such a ban to deposed Prime Minister Thaksin would help prevent his return to political life; the authorities have so far been unable to present a strong case indicting him for the abuses of power which the coup leaders cited as justification for their putsch. Senior military leaders may be reluctant to allow elections before Thaksin's prosecution is set in motion, but they have little time left, as public dissatisfaction with the current government is mounting, and there are public signs of friction between the military leaders and Prime Minister Surayud. Many Thais fear the USG has been co-opted by Thaksin's high-priced lobbyists, whose hand has been suspected behind our placement of Thailand on our IPR Priority Watch List. The economy has slowed considerably due primarily to poor economic management by the government. Our reaction to IPR violations and upcoming changes to our extension of tariff preferences for certain Thai products have heightened trade tensions. Vicious insurgent attacks in southern Thailand continue on a daily basis, despite the current government's efforts at reconciliation. You will arrive days after the conclusion of Cobra Gold, our largest military training exercise in the region. End Summary.

CONSTITUTION PAVING THE WAY FOR ELECTIONS

2. (SBU) Despite mishaps along the way, the leaders of the post-coup institutions have so far managed to stick to the

schedule they outlined right after the September 2006 coup; in April, the Constitution Drafting Committee (CDC) publicly released the first draft of a new Constitution. This draft has proven controversial, although not unexpectedly so, as it:

- provides for a Senate that would be appointed, rather than elected -- marking a reversion to pre-1997 ways;
- creates a "crisis council" with unspecified powers and unclear guidelines;
- effectively grants amnesty to those who launched the 2006 coup d'etat;
- provides officials of the judiciary with functions that appear more political than judicial, such as selecting members of independent government agencies; and
- does not enshrine Buddhism as the state religion, disappointing many in Buddhist organizations.

13. (SBU) Political parties, NGOs, media commentators, and other civil society members have publicly criticized the draft constitution. We believe it likely that the draft will be revised in significant ways, in response to these concerns. The Constitution Drafting Assembly (of which the CDC is a subset) has until early July to produce a final draft. This draft will then be submitted to the public in a referendum, likely to take place in early September. If the electorate rejects the draft, the interim constitution provides that the Council for National Security (CNS) and the cabinet must work together to select a previous constitution, modify it, and promulgate it. The deadlines established for this process make it possible that the authorities will fulfill the Prime Minister's commitment to holding elections in mid or late December.

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TRIBUNAL MAY DISSOLVE POLITICAL PARTIES

14. (SBU) The participants in those elections remain uncertain, however. The Constitutional Tribunal -- a new institution created post-coup -- is currently determining whether the Thai Rak Thai Party (TRT) and the Democrat Party (DP) committed "undemocratic acts" in connection with April 2006 elections. The Tribunal's determination is expected on May 30. A post-coup decree retroactively established that, if a party is ordered dissolved, the members of the party's executive board become ineligible to hold political office for five years. In the case of TRT, the party of deposed Prime Minister Thaksin, the executive board at the time of the alleged infractions consisted of 119 people, including many traditional power brokers from the North and Northeast. Although the charges of "undemocratic acts" are credible (and, in fact, were first lodged prior to the coup), disenfranchising such a large group of politicians could prove destabilizing.

THAKSIN REMAINS OF CONCERN

15. (SBU) Nevertheless, the Constitutional Tribunal ruling may be one important way to begin uprooting Thaksin's influence, and to bar him from returning to political life in the near future. The CNS established the Asset Examination Committee (AEC) soon after the coup, in order to investigate allegations of corruption by Thaksin and his cronies, but the AEC has worked slowly. It has recommended charging Thaksin for supporting his wife's purchase of property from a state body. It also has recommended indicting Thaksin's entire cabinet for establishing a government lottery without following proper procedures. These cases may help Thaksin's lawyers stay gainfully employed, but they do not threaten to bare a system of governance so corrupt and authoritarian as

to have warranted a coup d'etat. The AEC continues its work, but it remains unclear whether its investigations will produce the sort of damning evidence against Thaksin that might erode support for him in the rural areas where his populist policies endeared him to voters. With Thaksin's popularity in those areas -- and his wealth -- largely intact, the coup leaders continue to feel Thaksin represents a substantial threat.

SUSPICIONS OF THAKSIN'S INFLUENCE WITH THE USG

¶6. (SBU) Many Thais also fear that Thaksin, by hiring American lobbyists and public relations firms, has been able to win support from the USG. We have had to repeatedly explain even to cosmopolitan interlocutors that our policy is based on principled support for democracy, not on pressure from paid advocates. The situation is further muddled by an American public relations campaign that has been highly critical of Thailand's issuance of compulsory licenses for branded prescription medicines, and has condemned in emotional terms the nature of the post-coup government. (This campaign appears to be inspired by Abbott Laboratories, but Abbott and Thaksin are both clients of the same public relations firm.) In this context, there are widespread Thai suspicions that our recent placement of Thailand on the USTR Special 301 Priority Watch List for IPR violations was retaliation for the RTG's issuance of compulsory licenses. We have repeatedly said publicly that this is not the case; while the compulsory licenses may have contributed to USTR's determination, the primary factor was increased, open availability of pirated apparel, software, and video and music discs. It will be useful to have you reiterate this publicly while you are here.

GOVERNMENT APPEARS SHAKY

¶7. (SBU) The constant anxiety expressed about Thaksin's lingering influence is exacerbated by the interim

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administration's low level of public support. Although Surayud Chulanont was popular with the public when he received his appointment as Prime Minister, since then he has been seen as largely ineffective. He appears ill-served by a cabinet made up mostly of retired bureaucrats, and he has proven himself averse to conducting a large scale reshuffle. Consequently, rumors persist of a "re-coup," and some -- especially die-hard foes of Thaksin -- have expressed hope that CNS Chief General Sonthi Boonyaratglin would nudge Surayud out of office and appoint himself as Prime Minister. We have reinforced with Sonthi and others our opposition to an active duty military officer heading the interim administration.

INVESTMENT CLIMATE DETERIORATES

¶8. (SBU) Political dynamics have had a negative impact on economic conditions. One attempt to establish Thaksin's wrongdoings centered on the use of cut-out ("nominee") corporations used in the sale of his Shin Corp conglomerate to Singaporean investment firm Temasek. Attempts to patch loopholes that Thaksin exploited have led to draft legislation that would amend Thailand's Foreign Business Act in ways that would force many foreign firms (although few American companies) to divest at least a portion of existing operations. Both foreign and domestic investment have dried up, domestic consumption is very slow (auto sales down 16 percent this year), and exports are growing but with much thinner margins due to the appreciation of the Baht -- due to a large current account surplus caused by a low level of imports because of the decline in domestic demand and slowed imports of capital goods. This is further exacerbated by recent Thai policies, such as the imposition of capital

controls and proposed restrictions on foreign investment whose retroactive nature would apparently require companies in the services sector to divest majority control of their Thai operations. This reflects the regime's desire to exert greater control and project a nationalist line.

RECONCILIATION POLICY DOESN'T HELP DOWN SOUTH

¶9. (SBU) The Surayud government continues to pursue a publicly conciliatory policy towards southern Malay-Muslims which contrasts sharply with the approach of former PM Thaksin. Surayud apologized for past abuses, said he would talk with separatists, and reconstituted key security coordination centers. Unfortunately, these positive gestures are having little impact on the violence. After a brief hiatus following the coup, attacks in the far South have continued apace, and appear to be getting more brutal. In a recent attack in March, eight van passengers -- all Buddhist -- were killed execution-style. These and other horrific attacks have triggered reprisal acts of violence, raising the specter of communal violence.

MIL-MIL TIES

¶10. (SBU) We have made our concerns over the coup clear to the full range of senior military and civilian contacts and continue to highlight this message at every opportunity. Despite some initial frustration in the senior Thai ranks over our suspension of military assistance, many of our interlocutors appear to understand our position and look forward to a return both to democracy and the full extent of our long partnership. Thailand is a treaty ally, has been firmly supportive of our fight against terrorism, and has participated in Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF). It is a key partner in our efforts to assist refugees and counter narcotics. Despite increasing overtures by China and India, the Thai military still looks to the U.S. as a partner without peer.

¶11. (SBU) Thailand remains important to U.S. strategic interests in the region as a unique platform for exercises

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and engagement. Thailand offers good base infrastructure, large areas in which our aircraft and ground forces can conduct unrestricted operations, and access to bombing ranges -- all in short supply in Asia. Thailand's willingness to allow the United States to use Utapao Naval Air Station as the hub for our regional tsunami assistance program was crucial. Cobra Gold -- which recently concluded its 26th running -- is America's largest annual training exercise in the region and includes the active participation of Japan, Singapore and Indonesia, as well as observers from the PRC, Australia, France, Germany, the Philippines and Korea.

FINAL WORD

¶12. (U) Your visit will be most useful in reinforcing our position and promoting our interests. I look forward to your arrival.

BOYCE